

CAPITAL PLANNING ADVISORY BOARD

Minutes of March 13, 1997

The first meeting of the Capital Planning Advisory Board (CPAB) in the 1997 calendar year was held on Thursday, March 13, 1997 at 10:00 AM, in Room 111 of the Capitol Annex. Representative Fred Nesler, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Fred Nesler, Chairman; Bill Hintze, Vice-Chairman; Representative Lawrence Brandstetter; Secretary James Codell; Paul Isaacs; Sherron Jackson (representing Gary Cox); Lou Karibo; Senator Denny Nunnelle; Senator Albert Robinson; Diane Thompson; Laurel True; Judge Anthony Wilhoit.

Guests: Gary Cloyd, Workforce Development Cabinet; Doug Robinson, Kentucky Information Resources Management Commission; M. L. Allen, University of Kentucky; Commissioner Armond Russ, Department for Facilities Management; Ron Carson, John Hicks, and Geoff Pinkerton, Governor's Office for Policy and Management; Donnie Wainscott, Transportation Cabinet; Ron Bingham, EMPOWER Kentucky; Secretary Crit Luallen, Governor's Executive Cabinet; Tim Bennett and Joe Ewalt, Lexington Fayette Urban County Government; Dee Baugh and Ed Duvall, Department of Agriculture; Charlie Vice, Kentucky Education Association; Steve Dooley and David Ballard, Department for Information Systems; James Allen, Associated Industries of Kentucky; Ed Sargent, Jerry Bailey, Karen Crabtree, Joe Hood, Linda Kubala, Charles Shirley, LRC.

LRC Staff: Pat Ingram, Mary Lynn Collins, and Jonathan Downey.

Chairman Nesler introduced the Board's new member, Senator Albert Robinson who represents the 21st Senatorial District, and welcomed him to the Board.

Chairman Nesler said the minutes from the Board's November 13, 1996 meeting had been previously distributed to the members and asked if there were any comments. Mr. Hintze moved to approve the minutes of the meeting, as distributed. Ms. Thompson seconded the motion, which passed by voice vote.

Chairman Nesler said there were several information items in the members' folders and asked Pat Ingram, Staff Administrator, to review those items. Ms. Ingram said the first item was an update on the 1996-2002 Capital Planning Process. The Board approved the instructions for the capital plans at the November meeting. These instructions and the software for the agencies to use in developing their plans were distributed in January. In late January and early February, 6 training sessions were held to acquaint the agency planning personnel with the instructions and the software.

Approximately 95 individuals representing 46 cabinets or agencies attended these sessions. A separate session was held for representatives of the universities because there are some different requirements for the university plans. Ms. Ingram also recognized the assistance that was given to staff during these sessions by Doug Robinson, the Executive Director of the Kentucky Information Resources Management (KIRM) Commission and Terry Haines of the Governor's Office for Policy and Management (GOPM). Ms. Ingram said the Capital Planning staff is fairly small, and there is a great deal of work to be done primarily from April to July when reviewing the plans. Therefore, 2 LRC Committee Staff Associates will begin working with the Board in April. Presently, staff is responding to questions from agencies who call in and have questions as they complete their plans.

The next two information items are follow-ups from previous Board meetings. The first relates to condition of state facilities. At the last meeting, Ken Walker (representing Gary Cox) from the Council on Higher Education made a presentation on the maintenance of higher education facilities and distributed a report listing the condition of the university facilities as the campuses have reported them. At that meeting, Mr. True noted that the instructions for the planning process call for agencies to report on the condition of their facilities and asked if there were any standards to be used in providing that information. Following the November meeting, Ms. Ingram said she contacted Commissioner Armond Russ of the Department for Facilities Management about the database they maintain on state facilities because this database does have a code for reporting building condition of the state facilities. Ms. Ingram received a printout of this report but in transmitting it, Commissioner Russ noted that agencies seldom update the information that is in this database. He suggested that a similar database is maintained by in the Department of Insurance. Staff has been in contact with the Department and will work to develop information for the Board so it has the data on the condition of the various state facilities as the agency capital plans are reviewed.

The next item was a follow-up relating to the August, 1996 meeting at which the Board received a preliminary report from the Department for Facilities Management concerning the development of a long-range plan for the housing of state agencies in the Frankfort area. This plan is mandated by KRS 42.027, which came out of a recommendation from the Board's first Statewide Capital Improvements Plan. In August, Commissioner Russ and Jim Abbott from the Division of Real Properties reported on the status of developing that long-range plan and noted that preparation of their final report was about 20% complete at the time. Ms. Ingram said that earlier this year, the Finance and Administration Cabinet awarded a contract for an outside firm to review the Cabinet's draft space study for Franklin County to determine whether more information is needed to complete the study and to make recommendations as to the state's long-range plans for office and warehouse space in Franklin County. That outside review is to be completed by April 3. Ms. Ingram said she understands from the Cabinet that the completed long-range plan is expected to

be available for the Board's use in developing the 1996-2002 Statewide Capital Improvements Plan.

The next information item concerned a Prefiled Bill, 98BR85, that would amend the capital construction statutes. One of the provisions of this prefiled bill is similar to a recommendation and a bill that the Board recommended in its last Plan relating to the outside financing of projects which would eventually be owned by state agencies.

Ms. Ingram said the next two items were to provide Board members with a preview of what may be coming in the next few months as the agency capital plans come in. The first of these items related to the funding needs of the Department of Juvenile Justice. As a part of its review of House Bill 117, which established the Department of Juvenile Justice within the Justice Cabinet, Commissioner Ralph Kelly provided a report to the Interim Joint Committee on Judiciary on the funding needs of his Department; that report did identify some capital items.

The second of these items is the Maintenance and Renovation Project Listing from the Department of Parks. The Executive Branch Budget Bill contained a requirement that the Commissioner of the Department of Parks provide a report on January 1 of each fiscal year which is to be a priority listing of maintenance and renovation needs of the park facilities. The report that was provided is identified as a six-year plan and totals about \$50 million. Ms. Ingram said that the list does contain a number of projects which are rather small and, as such, will not necessarily appear in the capital plan where projects costing less than \$400,000 each are not required to be submitted.

The final information item addressed the issue of tax refunds that the state is being required to pay and the funding source for the refunds. Rulings by the State Supreme Court may require tax refunds totaling \$340 million from the state - a \$240 million refund of intangible property taxes and an additional \$100 million related to the ruling that would allow multi-state corporations in Kentucky to file a single Kentucky tax return. State Budget Director Jim Ramsey appeared before the Appropriations and Revenue Committee recently and noted that there are General Fund balances that could cover about \$100 million and also suggested some alternatives for funding the additional \$240 million, one of which would be utilizing amounts in the Budget Reserve Trust Fund. Another approach would be to issue bonds rather than using cash for the 27 projects that were funded from General Fund surplus in the last budget bill. Ms. Ingram said this information was provided to the Board because of its long-standing interest in the level of the Budget Reserve Trust Fund and also the Board's interest in the level of debt that the State has outstanding.

Chairman Nesler said there were two issues before the Board this morning that had been discussed in previous meetings - the first is the EMPOWER Kentucky project. In introducing Secretary Crit Luallen of the Governor's Executive Cabinet, and

Ron Bingham, Chief Project Manager, to provide an update on the project, Chairman Nesler said many people had been excited about this program for several months.

Secretary Luallen thanked Chairman Nesler and said she and Mr. Bingham were glad to appear again before the Board. She said the last time they were before the Board, they were in the final months of the effort to identify specific processes that could yield savings and additional revenues for state government and give the state an opportunity to rethink how we manage and operate these processes on a day-to-day basis. They are now at a point to report to the Board on the results of the first year of the initiative and to talk about how the work of the last year becomes the foundation for the ongoing commitment to the EMPOWER Kentucky concept and how that would relate to the capital planning process. As a review, she said Governor Patton had asked the General Assembly for a unique level of flexibility during the interim period and was given the authorization to use one-half of any 1995/96 General Fund Surplus - which was about \$103 million - for the implementation of re-engineering efforts that resulted from EMPOWER Kentucky and the technology that would result from those re-engineered efforts. The past year was spent focusing on which areas in state government had the most potential for return to the state financially, in terms of savings and revenues, and also for providing enhanced and more efficient service to taxpayers and clients of the various state agencies. They have been extremely pleased with the results of this effort.

Secretary Luallen said Governor Patton knew there was tremendous opportunity to improve the way the state does business, and he knew that the concept of business process re-engineering was something that is working very well in the private sector. So he had asked the legislature to work with him and give him the flexibility needed to try this effort and see how successful it might be. His commitment was that \$50 million in annual recurring savings or enhanced revenue would result from the initiative. Secretary Luallen said that when the program is fully implemented, about \$150 million in annual recurring savings will become available for other initiatives. The whole concept of EMPOWER Kentucky is not only to make government work better, but also to enable the state to put some money into more strategic areas, such as higher education, which the Governor believes are important to the future of the Commonwealth and its economy.

Secretary Luallen said a list of processes has been identified for redesign and from that list, specific projects have been identified for funding with the available dollars. She noted that a number of the other projects also merit funding and that EMPOWER Kentucky would like to work with the legislature through the budget process to see if all of the projects can move forward. Secretary Luallen said it was important for this Board to continue its interest and involvement in the EMPOWER Kentucky. The concept was addressed outside the capital planning process during the last year due to the authority granted by the General Assembly, but as the initiative moves forward to the next stage, they want to ensure that the Board and the other

appropriate legislative committees who are involved in technology and in capital budgeting are partners with them.

Mr. Bingham said at the middle of last year, there were 31 different processes actively being considered for redesign. These have been narrowed over the past year to the 7 processes that were reviewed by the Redesign Steering Committee and approved for funding. However, funds are not available for all 7 at this time.

Mr. Bingham said that in one area called "Simplified Regulatory," there were initiatives in Natural Resources, Agriculture, and Health and Safety which were doing similar processes: permitting, inspections, licensing. When it was realized how common they were in terms of their characteristics, the actions they perform and the information they require, the interested parties were brought together to develop a singular software system applicable to all. The system will have a common entry point so when an individual or business enters this system, the information requested is the same and only has to be submitted once and can be shared. With the "Simplified Access" project, the same thought process is utilized. Agencies which provide approximately 30 different services agreed to make a common template so that a citizen can go to any of these services and be enrolled in all of the services. A cross-agency team will not only develop the template but also a dictionary of all of the services available.

Mr. Bingham said there are Transportation processes, one of which is improving the efficiency of and the availability of information relative to vehicle titling. He also noted that the "Simplified Administrative" initiative is internal, dealing with such things as making the state government purchasing process easier and that the "Simplified Revenue" initiative will provide a "level playing field" for all taxpayers.

Mr. Bingham said some things are needed in order to make these redesigned processes successful. Relative to the technology infrastructure, he said the Kentucky Information Resources Management (KIRM) Commission and the Department for Information Systems (DIS) should be strengthened by having a statewide architecture and by updating and publishing a standards document. These are being worked on now. Relative to the area of personnel, he said a "safety-net" is in place for workers displaced by these processes.

Mr. Bingham stated that some processes can be implemented quickly, while others will take several years to fully implement - for example, the Integrated Tax System and the Simplified Administrative System. In the funding recommendations, the Simplified Administrative and Simplified Revenue processes are fully funded. This represents the majority of the opportunity to generate revenue. Those processes for which funding was not available total about \$80 million and EMPOWER Kentucky is examining alternative ways of funding them, perhaps in partnerships or lease versus buy opportunities. There is some enthusiasm in the commercial sector to be a part of this effort. Mr. Bingham said it was also important to balance savings with improved

service. Mr. Bingham said those processes which were not funded will follow the normal budget request process.

He said captured savings and revenues will approach \$150 million per year and that these are not "fuzzy figures" or cost avoidance figures.

Secretary Luallen said the biggest difference about what has happened with EMPOWER Kentucky and what usually comes through the Capital Planning process is that agencies develop their technology plans for presentation to KIRM based on what the agency believes it needs to continue current work, or to improve its ability to do its current work. That technology request has never been built from a comprehensive analysis of why the work is being done the way it is. EMPOWER Kentucky went back to the basic concept of what the process is, involved teams of employees to see how the process could work better, and then built a request for what technology would be needed to help implement those changes. This "bottoms-up" approach to building a technology request is different than what has been done before. The other thing that is different is that this effort crossed cabinets instead of being agency-based. The technology proposals in EMPOWER Kentucky are built on a different way of looking at how we do business and that should become part of the process as EMPOWER Kentucky moves forward.

Chairman Nesler said there are approximately 1,000 jobs that over a period of 5-7 years will be affected. He said the number was surprising because it was somewhat smaller than he had anticipated in the EMPOWER Kentucky process of trying to eliminate duplication of jobs and services.

Secretary Luallen replied that when the process began, one of the basic assumptions was that there would be no mass layoffs as a result of the program, because for the concept to work, the involvement and enthusiasm of the state's employees was needed. If this position had not been taken, it would have been very difficult for the initiative to be successful. She said they could have taken a much more severe approach in eliminating entire sections of agencies, but that approach would have made it difficult to achieve positive results. She foresees EMPOWER Kentucky moving forward in a permanent way so that as all of the current projects are implemented, a new round of projects are initiated. The eventual result would be a permanent, continual reduction in the workforce through the use of technology. It was a policy decision early in the initiative to try to avoid mass layoffs and to try to manage this in such a way that employees who are displaced will have the ability to be re-deployed in the system elsewhere if they choose to do so. She said the 1,000 figure may be conservative, and it will probably continue to grow as the program moves forward. Mr. Bingham agreed, saying that all estimates, including the number of employees affected, were conservative.

Chairman Nesler asked how many of the original 200 employees who were selected and trained for the redesign effort were involved in the project from start to

finish. Secretary Luallen said the employees were involved through the development of their recommendations. She said some were disappointed that their recommendations were not part of the Redesign Steering Committee's final recommendation. The administration had thought the original appropriation would be sufficient to fund all of the projects developed throughout the past year. She said there are teams that are very committed to the process but their recommendations have not been funded yet and EMPOWER Kentucky is trying to keep that momentum and enthusiasm alive as alternative funding methods are explored.

Chairman Nesler asked how the Health Services area might be affected since there has often been talk of duplication of services. Mr. Bingham said this was an excellent example of doing cross-functions, but it is very tough to do because there is the "specter" of combining agencies. This is a change in the way of doing business for everyone, including management, to the culture of a team rather than an individual. There will be a few hundred positions affected, mostly in management, clerical, and administrative, but not in social workers.

Mr. Isaacs said that recently the Judicial Branch has begun working with EMPOWER Kentucky and is looking at process mapping. He said EMPOWER Kentucky would be beneficial for not only the Executive Branch but also the Judicial Branch as they look at information and processes which reach across cabinets and branches. Secretary Luallen said there was a lot of potential with the Judicial Branch.

Mr. True asked how savings would be documented and demonstrated to the public, and whether most of the benefits will be in better services or in actual revenue. Mr. Bingham replied that the savings would be difficult to capture, but that a full-time position has been established in GOPM to ensure that as these savings accrue they are captured - as positions are vacated and not filled, the expense of that position is reduced from the budget - and as facilities or leases are closed, the money is returned to the General Fund and is not allocated back to the cabinet or agency. He said that not all savings can be captured by the state, because some are from Federal funds or agency funds. Secretary Luallen said they have tried to be careful to identify the parts of this project where savings can be captured to meet the Governor's goal of moving these dollars into other areas. She said GOPM would be a critical part in the process working with every agency's budget officers and understanding exactly what the guidelines are. She said budget requests would be reduced based on what agencies no longer need. The revenue piece, which contains the majority of the dollars, primarily results from an integrated tax system. There are currently 11 or 12 different databases and systems for collecting taxes that are not connected, and there is little cross-checking among different kinds of taxpayers. The state needs to move into better technology to ensure that all of the proper taxes are being paid in all the various categories. Other states which are moving in this direction have found it has tremendous benefits. This is about \$106 million of the \$150 million to be realized from EMPOWER Kentucky once it is completely implemented.

Mr. Hintze said pulling the money out - to make it real savings - is the toughest part of the process. It is relatively simple to identify the additional revenues generated, even though they are from existing revenue laws and existing requirements. As far as the savings, most of them begin to occur in the next biennium. The GOPM and LRC fiscal offices will be working to develop the budget instructions for the next two years and will try to make a part of those instructions the quasi-contracts that have been entered into with respect to each of these processes which have received approval from the Redesign Steering Committee. The savings, the revenues, and the redesign of the system are all a part of the agreement for the agency to receive the EMPOWER Kentucky funding; there will also be implications for ongoing base-budgets as well as for budgetary increases that will have been foregone as a result of the cost-avoidance measures that Mr. Bingham mentioned. He said the money will be pulled out in a specific way so the General Assembly can consider a reallocation of those dollars for whatever purpose it chooses. At this point, the emphasis will be on re-deploying those resources toward post-secondary education reforms and improvements and some other high priority areas.

Senator Robinson said there could be several areas of concern when individuals look at this with different points of view or different concerns, but it is not just jobs, or savings, or computers. There is so much duplication, and that is something that needed to be addressed a long-time ago. This will also improve efficiency and the state's ability to perform a task in a timely manner. Senator Robinson said he was impressed with the initiative and had never seen a harder working group during his tenure with the General Assembly. He said the only problem he can see is that this should have been done years ago, and he wholeheartedly supports it. Ms. Thompson agreed with Senator Robinson, adding that this program was very exciting for the future of the Commonwealth.

Secretary Luallen said the Redesign Steering Committee, of which Senator Robinson was a member, was very helpful and supportive of the initiative. She said the program now needs to determine exactly how EMPOWER Kentucky will relate to the legislative process. Representative Moberly was also a member of the Redesign Steering Committee and has had discussions with the Governor concerning what role the legislature would like to play in the future of EMPOWER Kentucky. She said EMPOWER Kentucky needs to become an integral part of the legislative process for review purposes; this is an area in which the Board should have input.

Chairman Nesler said the next report was the 800 MHz digital trunked radio statewide system. Presenting the report were Steve Dooley, Commissioner of the Department of Information Systems, and David Ballard, Director of Network Services. Chairman Nesler said the 800 MHz project has been a source of discussion for some time; the Board spent a great deal of time reviewing the project and made it one of the top ten recommendations in the last Statewide Capital Improvements Plan.

Mr. Dooley gave a brief overview of the radio system and why it is needed. Currently in Kentucky, there are about 22 different two-way radio systems, including State Police, Disaster and Emergency Services, Transportation, Natural Resources, and the various agencies that use radio systems. The different systems do not talk to each other which creates problems in emergencies where several of these agencies are involved. The technology and equipment being used is old, has a high failure rate, and replacement parts are becoming more difficult to obtain. The system transmits only voice communications currently, but there is a growing need to transmit data as well. Expansion capabilities are also very limited. Finally, there is also the issue with the Federal Communications Commission which has a ruling on the books, called Part 88, that calls for the reallocation of the radio spectrum currently used; that reallocation would make the current radio systems useless. There is no definite date for when the ruling will be implemented; at one time it was 1997, but has now been pushed off beyond the year 2000. The 800 MHz digital trunked radio system offers a chance to build a statewide radio infrastructure system that can be shared and utilized by all agencies, will allow radios to be compatible, has expansion capabilities, will provide better coverage than is currently available, and can be expanded for use by local government.

Mr. Ballard said in June 1995, the Finance and Administration Cabinet issued a request for proposals (RFP) for an 800 MHz system. In July 1995, the Board was given a cost estimate of \$125 million for the project and in December 1995, bids from 2 vendors were received; they were almost double the original cost estimate. Additionally, there was no funding allocated for the project in the Executive Budget or in EMPOWER Kentucky. In April 1996, the Finance Cabinet terminated the RFP and they are now in the process of determining future action.

Mr. Ballard said the Finance and Administration Cabinet knows the radio systems in the state need replacing and that the project will have a high cost. The 800 MHz system is still a viable project. The Cabinet has delegated to DIS the task to move forward and try to find an approach to handle the project. Jim Pierce, manager of the Kentucky Emergency Warning System, is the project leader. One of the first things that was decided was to dissect what happened to increase the cost of the project from the initial \$125 million estimate to double that amount when bids were received. The bids are being examined, separating the infrastructure versus the base stations versus the radios that go into vehicles. Both vendors have been brought in to try to determine why the bids were so high and how the project might be scaled back. They are also seeking the authority of the Secretary of Finance to obtain the services of an outside consultant. According to Mr. Ballard, Kentucky must decide what we asked for, what we want, what we really need, and what we can afford.

Mr. Ballard said they were also trying to determine how state government can "partner" with the entire Commonwealth for this particular project. It was anticipated in the earlier initiative that local governments and local school districts would be active partners; under the present effort there must be concrete information to make sure

there is a true commitment to the project from these entities. They are also looking at the private sector to try to determine if state government should build its own system or use a privately built system. Kentucky is also obtaining information through its membership in the National Association of State Telecommunication Directors. Many other states are planning or have an 800 MHz system. DIS has been querying such states to determine the approach that they took to solve this radio problem and to find out whether the states built their own systems or outsourced them, and how they funded the system.

The most important problem to resolve is funding. This is a very expensive project, much more expensive than anticipated. Federal grants are being looked at as a possible funding source. If the infrastructure is built with bond funds, there will be a fee structure so users of the system can be charged to help retire the bond debt. DIS will be working with the agencies - all of the potential users of this system within state government and the local sector - to produce a viable, economically feasible proposal in the next few months. Mr. Dooley said they are trying to re-examine the project and identify all possible options both from a technology standpoint and from a funding standpoint. This should be done in time to make a budget proposal.

Chairman Nesler said from the first time he heard about the project, even realizing that it was very expensive, it sounded like something that was worthwhile. He is somewhat surprised to learn from this report, that some of the work is just now being done; he thought items such as trying to find out whether the state should be an owner or just a user of the system would have been worked out earlier. He said it appeared that previously there was not a plan as to who would take part in the system or how it would be funded. Mr. Ballard agreed with Chairman Nesler and said the first thing that should have been done was to get a funding mechanism in place. He said many contacts were made with local governments and school systems, but there were no firm commitments. Mr. Dooley said there were many "soft" commitments, but that "hard" commitments would be needed in order to proceed further with the project.

In response to a question from Chairman Nesler, Mr. Ballard said some other states have been able to get active participation from the local sector. Florida enacted legislation to develop a funding mechanism to help retire the bonded indebtedness; it attached a fee to basically every title, driver's license, hunting and fishing license, etc. South Carolina is trying a public/private partnership. Michigan, Pennsylvania, Colorado, and Ohio are also being looked at; prices for the projects in those states have ranged from \$140-\$240 million.

In response to questions from Senator Robinson, Mr. Dooley said that they are researching why the bids were so much more than expected. He said the project had initially been led by a group from the Communications Advisory Council who were stakeholders in the project, such as the Division of Telecommunications and the State Police. He said they are now examining whether the state asked for things that were not needed or for a coverage area that was too extensive and required too many

towers. Senator Robinson said it appears the problem was that everyone was involved somewhat but that no one was completely in charge. Mr. Dooley said that was possible, but that this time there is more defined leadership.

Representative Brandstetter asked how the earlier bid document had been prepared and who prepared it. Mr. Dooley said it was done by a Subcommittee of the Communications Advisory Council, along with a consultant. In response to a further question, Mr. Ballard said he thought a lot of what drove the price up was a request for technology that was not readily available and the desire for 100 percent coverage. Currently there are 10 dead zones throughout the Commonwealth where radios will not penetrate. He said 100 percent coverage is desirable, but may not be feasible due to the number of new towers that would need to be built. Representative Brandstetter said he thought there would be fewer variables in this type of project. He also said this may be a case of each group pushing for what it wanted; this may have put too many things in the project that were not needed.

Mr. Isaacs said he would like to give a little background on the climate in which this project was done. He said there had been discussions about the need for this project for many years. Then the ruling from the FCC came down and it appeared the state's entire radio system was going to become useless in a short period of time. There was also the problem with the State Police having "dead spots" where officers could not be in contact with their bases or other officers. He said it is possible that the state cannot afford a radio system without these dead spots, but it is necessary to understand the reasoning behind wanting such a system. He said he remembered when the present system was designed in 1976, and soon afterward the state started redesigning it again because the "dead spots" were discovered. He said although the cost is tremendous, we also must be careful that we do not build an inadequate system. He said he knows the process this time can be improved, and we now have the ability to spend more time to design a system that meets the needs today and in the future.

Mr. Dooley agreed, and said the people who worked on the project previously worked very hard and were very sincere in their efforts. Mr. Ballard said one of the things that drove the cost up was that they could not calculate in the estimate how many new towers would need to be built to provide 100% coverage. Some estimates have placed this number at about 40 towers.

Mr. Codell said he would like to amplify the concerns of Senator Robinson and Representative Brandstetter by stating that the state's needs are different than they were 20 years ago. He said technology is improving constantly, and before contemplating an expenditure of this magnitude, it needs to be studied carefully.

Chairman Nesler said the final presentation would be from Mr. Mike Childress, Executive Director of the Long-Term Policy Research Center; the Center published its

second report in regard to trends in the Commonwealth recently. He said Mr. Childress would report on trends that may affect the capital needs of the state.

Mr. Childress said the Long-Term Policy Research Center had just completed its second biennial trends report. The report is mandated by statute to provide an exploration, description, and analysis of trends affecting the Commonwealth's communities, economy, and political system so state government can have an idea about how some of these emerging trends may affect their current budget priorities. He said there is an item in the budget instructions which requires agencies to address how their budget priorities reflect these important trends affecting the Commonwealth.

Mr. Childress said there were two things that affect capital planning: there are specific trends that may affect capital expenditures and there are also trends that affect expenditures in other areas which then can affect the total amount of money available for capital expenditures. One of the big trends taking place right now is the migration pattern taking place in Kentucky. From 1990-1995, there have been more people coming into Kentucky than going out of the state. Most of the people coming into the state are older Kentuckians. Many of them are native Kentuckians who are coming back. There are several areas in the state that are especially attractive to retirees; two of them are the Land Between the Lakes and Lake Cumberland. He said there has been a net change of 82,000 people from 1990-95. Of these, 24,000 have been into urban areas, and approximately 58,000 into rural areas. This may have implications for infrastructure needs in rural Kentucky. With this many people coming into rural Kentucky, more demands will be made on services in these areas.

Mr. Childress also discussed trends involving Kentucky's aging population, family trends, and housing. He said that these would all be factors in capital construction needs for housing and infrastructure. He said more of the responsibility for low-income housing will be placed on the state, thus increasing capital construction needs. In the area of health care, more transportation may be needed in the future. He also mentioned the increasing prison population and the increasing number of youth arrests, both of which will increase capital construction needs.

Mr. Children then discussed the growing needs of elementary and secondary education and said that physical plant needs are estimated at \$2.7 billion. He said Kentucky, on a per student basis, is spending about 85-90% of the "benchmark" states. Higher education is getting a higher percentage of its funds from tuition, and a decreasing percentage from the General Fund. He said this trend will continue, leading to more increases in tuition. Mr. Childress addressed several questions from Representative Brandstetter and Senator Robinson concerning higher education.

Mr. Childress also discussed the state's economy, particularly relating to coal, tobacco, and the manufacture of finished products, transportation, and technology. He said the biennial trends report is available from the office of the Long-Term Policy Research Center or on the Internet.

Mr. True said he does not believe the state does enough to support tobacco farmers in Kentucky. He said he was concerned that the state would soon lose the income that tobacco produces and that the state should enhance its efforts to aid tobacco farmers. He urged Mr. Childress and the Long-Term Policy Research Center to look at this issue. Mr. Hintze said there had been a study done by the Center and asked Mr. Childress to forward a copy of the report to Mr. True.

Chairman Nesler thanked Mr. Childress for his report, then announced that the next meeting of the Capital Planning Advisory Board will be Friday, June 6, at 9:00 a.m., and that the two day meeting will be July 17 and 18. Ms. Ingram said the next meeting will offer some background information on the planning process, capital projects funding sources, and other items of interest. She asked the members to notify her if there were any specific subjects they were interested in having included on the agenda.

Mr. Karibo moved that the meeting be adjourned. Senator Robinson seconded the motion, and the meeting was adjourned at 12:00 p.m.